Management's Discussion and Analysis

Unitrin Direct Insurance Company

General Matters
Unitrin Direct Insurance Company ("UDIC") markets a full line of private passenger automobile and homeowner products utilizing direct marketing in several states. UDIC is licensed in Arizona, California, Indiana, Iowa, Illinois, Maryland, Michigan, New Jersey, New York, Pennsylvania, Texas and Virginia. UDIC currently is writing direct market private passenger automobile insurance in California, Illinois, Iowa, Maryland, New Jersey and New York and Texas and homeowner products in Illinois and Pennsylvania. The company no longer writes new private passenger automobile policies in the states of Michigan or Pennsylvania: renewal policies in these states have been transferred to the company's affiliate, Unitrin Direct Property & Casualty Company ("UDPC"). UDIC administers private passenger automobile insurance for its affiliate, Alpha Property and Casualty Insurance Company, in the state of Florida. The company was licensed in Texas in 2008 and began writing in the state during the year. The company is domiciled in the State of Illinois.

Results of Operations
Direct earned premiums for 2008 were $74.8 million or 4.0% higher than the $71.9 million recorded in 2007, attributed to UDIC's direct marketing efforts. Premiums, losses and underwriting expenses are reinsured with the Company's parent, Trinity Universal Insurance Company ("Trinity"). UDIC has a 90% quota share reinsurance agreement with Trinity. Pre-tax net investment income for 2008 decreased to $.5 million from $.7 million in 2007 primarily due to lower interest rates and also a lower level of invested assets during the year.

Reserves for Losses and Loss Adjustment Expenses – Activity in the reserve for losses and LAE, on a net basis, is as follows at December 31:

(in thousands)	2008	2007
Balance at Beginning of Year	$ 3,409	$ 2,956
Incurred Losses and LAE related to:		
Current Year	6,931	5,947
Prior Years	362	119
Total Incurred Losses and LAE	7,293	6,066
Paid Losses and LAE related to:		
Current Year	4,024	3,767
Prior Years	2,182	1,846
Total Paid Losses and LAE	6,206	5,613
Balance at End of Year	$ 4,496	$ 3,409

Reserves for losses and LAE are estimated based on historical experience patterns and current economic trends. Actual loss experience and loss trends are likely to differ from these historical experience patterns and economic conditions. Loss experience and loss trends emerge over several years from the dates of loss inception. The Company monitors such emerging loss trends. Upon concluding, based on the data available, that an emerging loss trend will continue, the Company adjusts its reserves to recognize such trend. Changes in estimates are included in income in the period of change.

Admitted Assets
Admitted assets at December 31, 2008 were $37.2 million, 3.9% higher than the $35.8 million at December 31, 2007 due to higher current and deferred tax assets, uncollected premiums, and receivables from parent and affiliates, offset by a lower cash and invested asset balance.

Liabilities and Reserve Adequacy:
Total liabilities at December 31, 2008 were $24.7 million, 10.8% higher than the $22.3 million recorded at December 31, 2007. The increase was primarily due to an increase in loss and loss adjustment expense reserves and accrued other expenses.

Capital and Surplus - The following table summarizes the Company's capital resources at the end of the last two years.

(in thousands)	2008	2007
Capital Stock	$ 2,500	$ 2,500
Gross paid in and contributed surplus	25,500	25,500
Unassigned funds (surplus)	(3,561)	(2,419)
Less: Treasury stock	12,000	12,000
Total surplus as regards policyholders	$ 12,439	$ 13,581

Total surplus as regards policyholders decreased 8.4% or $1.1 million. The decrease was primarily due to the change in nonadmitted assets and a net loss.

Liquidity:
The Company cedes premiums, losses and expenses to Trinity under a quota share reinsurance agreement. The agreement provides for a ceding rate of 90%. The Company has established a level of cash and liquid securities that combined with expected cash flow, is believed to be adequate to meet anticipated payment obligations.